The Financing Downfall Of

General Growth Properties

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On April 19, 2009, General Growth Properties (GGP), the second largest retail real estate investment trust (REIT) in the United States, declared bankruptcy, listing $29.5 billion in assets and $27.2 billion in total debts, including its minority interests in properties held in partnership. It was the largest real estate bankruptcy in U.S. history. GGP began the decade owning 85 regional malls and $5.2 billion in assets. Taking advantage of readily available debt, especially through the commercial mortgage-backed securities market, GGP went on an acquisition spree that culminated with the largest U. S. retail merger with the purchase of The Rouse Company in 2004. In subsequent years GGP managed its massive balance sheet by sourcing new debt each year to replace ever increasing maturing debt. The global credit crisis in 2008 disrupted this financing strategy and left the company with few options. To better understand what happened and why to General Growth it is beneficial to review the strategic and financing decisions made in the years leading up to the bankruptcy filing, and how that affected company performance. In addition, during the course of the bankruptcy proceeding General Growth has established new precedents with respect to how CMBS debt can be modified, which has shaken the entire debt market.

General Growth Properties was formed in 1986 by Martin and Matthew Bucksbaum, who became the "Original Stockholders". In April, 1993 an initial public offering of the common stock of General Growth was completed, and GGP Limited Partnership ("Operating Partnership") was formed between General Growth Properties (the general partner) and the Original Stockholders (as limited partners). The Operating Partnership holds substantially all of its properties and assets through subsidiaries, including subsidiary partnerships, limited liability companies and corporations that have elected to be taxed as REITs. The Operating Partnership derives substantially all of its cash flow from cash distributions to it by its subsidiaries.

2001 Company History

GGP Annual Performance - For the year, total revenue was $803.7 million, representing an increase of $104.9 million, or 15% over the previous year. Minimum rents increased $28.6 million, 6.5% from the year 2000. Revenue from new properties acquired or developed accounted for 12.2% of the overall increase, or $12.8 million. Approximately $70.3 million of increased revenue came from increased fees paid to General Growth through its acquisition of the property management entity that was previously performing the daily management of the company's consolidated portfolio properties. These management contracts were subsequently canceled and the management fees are now paid directly to General Growth.

Acquisition/Development Events - For the year, GGP funded $338 million for real estate acquisition and development. In August, the company acquired the Tucson Mall, primarily with a $150 million short-term acquisition loan. The loan interest rate was LIBOR plus 95 basis points and matured in December 2001. The loan was refinanced as part of a mortgage pass-through certificate (MPTC) issuance. Additionally, 15 Portfolio Centers were undergoing expansion or renovation during the year.

Equity Raising Events - In December, GGP completed a public offering of 9.2 million shares of common stock. The company received net proceeds of approximately $345 million dollars, which was used to reduce outstanding indebtedness and increase working capital.

Debt Raising Events - For the year, proceeds from the issuance of debt exceeded principal payments on debt by $154 million, with $2.14 billion in debt issuance and $1.93 billion of debt payment. In December, General Growth completed the placement of $2.55 billion of non-recourse MPTCs. The MPTCs were collateralized by 27 mall and 1 office properties held by GGP and Unconsolidated Affiliates. The transaction consisted of three loan offerings, each with different terms. Loan #1 had a 36-month maturity with two 12-month extension options and variable rate notes with interest rates ranging from LIBOR plus 60 to 235 basis points. Loan #2 had a 51-month maturity with two 18-month extension options and variable rate notes with interest ranging from LIBOR plus 70 to 250 basis points. Loan #3 had a 5-year maturity with fixed interest rates ranging from 5.01% to 6.18%. To shield itself from interest rate risk, the company purchased interest rate protection agreements and entered into interest rate swap agreements with a notional value of $666.9 million. The swap agreements converted the related variable rate debt to fixed rate debt with a weighted average annual rate of 4.85%.

Loan Refinancing Events - Throughout the year, GGP obtained or refinanced four fixed rate mortgage loans collateralized by mall properties. The mortgages each had 10-year maturity terms and annual interest rates ranging from 7.13% to 7.54%. Monthly payments on these loans included both principal and interest.

Year End GGP Debt

Fixed Rate Debt	
Mortgage notes payable	$2,239,511,000
Variable Debt	
Mortgage notes payable	$951,696,000
Credit facilities	$207,000,000
Total Consolidated Debt*	$3,398,207,000
Avg. Interest Rate	6.03%

* Properties owned entirely or controlled by GGP

Year End GGP Principal Maturity Schedule:

2002	$39,686,000
2003	$249,955,000
2004	$260,267,000
2005	$50,303,000
2006	$176,410,000
Subsequent	$2,621,586,000

2002 Company History

GGP Annual Performance - For the year, total revenue was $980.5 million, an increase of $176.8 million, or 22% over the previous year. Revenues from newly acquired properties contributed $104.7 million, or 59% of the revenue growth. The remaining $72.1 million came primarily from base rents on newly developed retail space, specialty leasing increases, and greater recoverable operating costs from existing centers.

Acquisition Events - Throughout the year, GGP spent $2.027 billion in acquisitions. The company purchased five individual malls using a combination of available cash on hand and new non-recourse mortgages with five-year maturities and interest rates that averaged LIBOR plus 75 basis points. The year's primary acquisition was the July $1.1 billion purchase of JP Realty Assets and its portfolio of 18 malls and 26 community centers. After the assumption of $576 million in existing debt and existing cumulative preferred units (CPUs), the cash portion of the deal was funded by a previously sourced $350 million loan, and available cash on hand. Two months earlier in May, the company also purchased Victoria Ward, Limited, a privately held real estate corporation in Hawaii. The $250 million transaction was funded primarily from the sale of the company's marketable securities and available cash on hand.

Equity Raising Events - In April, the company issued 240,000 redeemable preferred units (RPUs) to an institutional investor which yielded net proceeds of $58 million. In May, 20,000 CPUs were issued to an investor, which yielded net proceeds of $5 million.

Debt Raising Events - For the year, proceeds from the issuance of debt exceeded principal payments on debt by $574 million, with $792 million in debt issuance and $218.5 million of debt payment. In July, as part of the $1.1 billion acquisition of JP Realty Assets, a $350 million loan from a group of commercial banks was utilized. The loan matured in 2003 with an interest rate of LIBOR plus150 basis points. In August, another $150 million in loan proceeds were received from two separate groups of banks. The two-year loans were partially amortizing and carried an interest rate of LIBOR plus 100 basis points.

Loan Refinancing Events - Throughout 2002, the company refinanced or obtained three mortgages on existing portfolio properties. In a change from loan terms received just a year earlier, these loans had only five year maximum terms, and interest rates that ranged from LIBOR plus 103-120 basis points.

Company Coverage - Both larger acquisitions were viewed favorably by Wall Street. A REIT analyst for Salomon Smith Barney described the JP Realty purchase, “They feel it’s appropriate to be buying assets at this time, especially with interest rates so low. It’s very easy for General Growth to acquire a mall at an 8-and-a-half or 9-and-a-half percent cap rate and still make it attractive to their investors, because of where the mortgage rates are today"[1]. A Morgan Stanley analyst commented on the Victoria Ward acquisition, "First and foremost, we care if companies are deploying capital at attractive rates of return. We think that GGP did that."[2]

GGP Year-End Total Debt

Fixed Rate Debt	
Mortgage notes payable	$2,523,701,000
Variable Debt	
Mortgage notes payable	$1,472,310,000
Credit facilities	$596,300,000
Total Consolidated Debt	$4,592,311,000
Avg. Interest Rate	5.39%

GGP Principal Maturity Schedule:

2003	$726,702,000
2004	$453,459,000
2005	$128,836,000
2006	$973,455,000
2007	$430,439,000
Subsequent	$1,879,420,000

2003 Company History

GGP Annual Performance - For the year, total revenues increased $294 million, a 30% increase over the prior year. Revenue from the year's property acquisitions accounted for $249.5 million, or 85% of the overall increase. Additional rents resulting from higher occupancy rates, higher base rents from new specialty leasing or lease renewals increased by approximately $45.6 million. By the end of the year, the company was also undertaking 10 major redevelopment projects on existing properties in excess of $10 million.

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[1] Joel Groover, "General Growth Buys JP Realty for $1.1 Billion", *Retail Traffic,* March 4, 2002
[2] Kelli Abe Trifonovitch, "Big General Growth", *Hawaii Business*, November 1, 2002

Acquisitions/Development Events - For the year, GGP acquired 100% interests in 10 properties and additional ownership interests in seven retail properties totaling approximately $1.983 billion. Acquisitions began in April following the conclusion of the $1.25 billion credit facility. Acquisitions were funded with a combination of five-year term, interest only mortgages with mortgage rates ranging from LIBOR plus 70-185, cash borrowed from a credit facility, and available cash on hand.

Debt Raising Events - For the year, proceeds from the issuance of debt exceeded principal payments by $1.4 billon, with $3.14 billion of mortgage and other debt obtained and $1.7 billion in mortgage and other debt paid. In April, the company established a new revolving credit facility and term loan with a group of banks. The initial borrowing capacity available to the company was $779 million, which was later increased to approximately $1.25 billion. At the closing of this agreement, approximately $619 million was borrowed with a three-year term and partial amortization of principal in the second year equal to $28.2 million and $36.1 million in the third year. The interest rate on these borrowed funds was LIBOR plus 100 to 175 basis points, depending upon GGP's leverage ratio. The proceeds were used to consolidate existing financing. In July, $216 million was raised through obtaining five new amortizing mortgage loans on sixteen previously unencumbered properties. The mortgages ranged in terms from five to seven years, with interests rate from 3.56%-4.70%.

Loan Refinancing Events - During the year, GGP refinanced nine properties with new, non-recourse mortgages with terms of maturity ranging from five to 10 years. Payments of principal and interest were required for all and the interest rates ranged from 3.11% to 5.45%. One example was The Meadow Mall in Las Vegas, NV. Originally built in 1978 and last remodeled/expanded in 1997, the mall contained approximately 944,000 gross leasable area, anchored by a Dillard's, JCPenney, Macy's and Sears. The existing $59.6 million mortgage was replaced by a new $112 million mortgage with a 5.45% interest rate, a ten year term and payments of principal and interest due monthly.

Company Coverage - Three of GGP's acquisitions were the subject of an article in the January, 2004 edition of *Shopping Centers Today*, which commented on the current level of interest rates available to buyers and the ability to increase investment returns through positive leverage.

> "General Growth Properties raised eyebrows in October when it paid $550 million for three malls at a combined cap rate of 7.1 percent, especially because the malls were considered 'B' quality… One reason real estate looks attractive is that other investments don't. Interest rates are paying skimpy long- and short-term yields. At press time the 30-year Treasury yielded slightly more than 6 percent; the 10-year was even lower, at 4.41 percent. Meanwhile, investors seeking yield continue to reap healthy cash-on-cash returns (a property's profits after debt payments) for shopping center investments, according to market participants. Low interest rates have helped cash-on-cash returns to hover around 9.5 to 10 percent for solid tenants in open-air centers, says Koury. *[James Koury, senior vice president at Spaulding & Slye Colliers, a Boston-based real estate brokerage*] This, too, is helping keep the retail real estate market hot. When interest rates were higher, cap rates needed to be in the 8.5 to 9 percent range to make a shopping center investment worthwhile, says Koury. But thanks to low lending rates, buyers can achieve healthy returns on properties selling at cap rates below 8 percent, such as those recent General Growth purchases."[3]

GGP Year-End Total Debt

Fixed Rate Debt	
Commercial Mortgage-Backed Securities	$307,802,000
Collateralized Mortgage Notes	$3,645,163,000
Unsecured Term Loans	$99,279,000
Variable Rate Debt	
Commercial Mortgage-Backed Securities	$495,746,000
Collateralized Mortgage Notes	$1,176,750,000
Credit Facilities	$789,000,000

[3] Donna Mitchell, "Low Cap Rates? Who Cares? Says Buyers", *Shopping Centers Today* January, 2004

Unsecured Term Loans	$135,750,000
Total Consolidated Debt:	$6,649,490,000
Avg. Interest Rate	4.74%

GGP Principal Maturity Schedule:

2004	$449,439,000
2005	$363,691,000
2006	$1,230,975,000
2007	$557,357,000
2008	$1,460,849,000
Subsequent	$2,587,179,000

2004 Company History

GGP Annual Company Performance - 2004 was a headline making year for General Growth Properties as it initiated the largest merger in retail real estate history with the purchase of The Rouse Company. Increases in total revenues were almost entirely the result of acquisitions. A new revenue stream to General Growth was Rouse Company land sale revenue, which totaled $68.6 million for the year. By year end, the company was undertaking 21 major redevelopment projects in excess of $10 million.

Equity Raising Events – In November, the company sold 15.9 million shares of common stock at a share price of $32.23, raising $512 million, which was included in the financing of the Rouse Company purchase.

Debt Raising Events – In November, the company entered into an updated revolving credit facility and term loan with an initial capacity of $7.3 billion. The proceeds of this agreement were contributed to the Rouse Company purchase and the full repayment of the 2003 credit facility agreement. The agreement included a six-month bridge loan of up to $1.1 billion, a three- year term loan of $3.7 billion, a five-year term loan of $2.0 billion, and a revolving credit facility of $500 million. The entire financing package bore an interest rate at a weighted average of LIBOR plus 2.2%. General Growth was committed to repay the entire credit facility before maturity through a variety of strategies including refinancing low loan-to-value mortgages on existing properties; placing mortgages on unencumbered properties; and increasing cash flow from new and existing properties.

Acquisitions Events - During the year, the company spent approximately $16.08 billion for acquisitions. The largest outlay was $14.3 billion to purchase The Rouse Company in the largest merger in U.S. retail real estate history. The acquisition of the Rouse Company added 47 regional malls, community centers and mixed use projects to the retail portfolio of General Growth Properties plus a new office building portfolio, located primarily in the Baltimore-Washington and Las Vegas markets and totaling 92 buildings and 5.2 million square feet. It also bought a community development portfolio that included land development and sales operations related to projects located in Maryland, Nevada, and Texas. The portfolio totaled 17,616 acres of saleable land. The purchase was funded by a combination of cash on hand and newly acquired debt and equity, as well as the assumption of Rouse Company debt:

Rouse Company Purchase Financing

2004 Credit Facility	$7.045 billion
Stock Sale Proceeds	$512.7 million
Mortgage Refinancing	$2.04 billion
Total Cash Sources	**$9.597 billion**
Assumption of TRC Debt	$5.137 billion
Total Sources	**$14.735 billion**

When the merger was first announced on August 20, 2004, the price of $67.50 valued the Rouse Company at a 33% premium over the stock's closing price from the previous day. "General Growth did not compute a cap rate on the transaction, but some analysts estimated that it was in the 5.5 percent range, about where top regional mall assets have been trading."[4] During the announcement call, General Growth discussed how they believed they could increase the revenue performance of the Rouse properties, which at the time were 92% occupied and had average sales per square foot of $439, above the industry average of $345. Robert Michaels, President and COO commented, "I spent a lot of the last 20 days looking at these centers and I think there are opportunities to improve them. There are opportunities available for streetscape retail. Retailers will respond positively to that. There are some markets where theaters would be appropriate. Rouse has never put a lot of theaters in. Restaurants are an opportunity we will continue to work on."[5]

At the time of the announcement, a senior managing director in Cushman & Wakefield's retail group stated, "General Growth has been a very aggressive acquirer of late…This is a chance for GGP to get a premier operator, locations and development opportunities. They have strategically bought some very good malls and they probably haven't overpaid."[6]

Other commentary was more nuanced. An article in the October issue of Shopping Centers Today related that:

> "Last month General Growth Property's outmaneuvered two rivals to land The Rouse Co.'s peach of a portfolio. And though Wall Street critics are suggesting that General Growth is paying caviar prices for its peach, CEO John L. Bucksbaum, SCSM, says the $12.6 billion price tag is well worth it….Analysts are concerned about the deal's low cap rate. According to Morgan Stanley estimates, the deal puts a 5.4 percent cap rate on the Rouse portfolio… By comparison, Simon Property Group's $4.8 billion purchase of the 16.6 million-square-foot Chelsea Property Group portfolio

[4] David Bodamer, "General Growth to Buy Rouse in $12.6B Blockbuster," Commercial Property News, August 20, 2004
[5] IBID
[6] IBID

> bears a cap rate of 7.2 percent. On average, quality malls are trading in the 6.5 percent range these days, according to market sources."[7]

Bucksbaum further defended the acquisition by referring to the company's historical stock performance. "'Cap-rate assumptions on property portfolios are fleeting', says Bucksbaum, adding that analysts must take a longer view of General Growth as a company. The firm continues to top mall REITs by several measures. 'Our performance has substantiated the decisions that we have made,' he said. 'Since the company's IPO in 1993, General Growth's annual dividend has grown at an average annual compound rate of 8.4 percent, and its total returns have beaten the Morgan Stanley REIT index.' "[8]

Additional acquisitions included five retail properties and the ownership interests in three other retail properties. The two largest transactions among this group included the Stonestown Galleria in San Francisco, and the Grand Canal Shoppes in Las Vegas. The Stonestown acquisition was approximately $312 million and included a $220 million, five-year term variable rate loan with an interest rate of LIBOR plus 60. Monthly payments were interest only. The purchase price for the 516,000 square foot Grand Canal Shoppes property, opened in 1999 and located at the Venetian resort, was $766 million. It was funded by a $427 million, five-year term mortgage with an interest rate of 4.78% with monthly payments of principal and interest and cash available from the 2004 Credit Facility. The company also reached an agreement to purchase a second retail facility at the Venetian complex that was under development. The price was to be calculated as a 6% capitalization rate on the projected net operating income of the property up to $38 million, and a capitalization rate of 8% for income above the $38 million level. The overall minimum purchase price was to be $250 million.

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[7] Brannon Boswell and Donna Mitchell, "Deal Good for General Growth, Bucksbaum tells Wall Street Critics," *Shopping Centers Today,* October, 2004
[8] IBID

General Growth also concluded its first two international investment and development agreements. The company committed $12.2 to a joint venture to build and manage a 500,000 square foot retail center in San Jose, Costa Rica with two Latin American real estate development partners. The company also committed $32 million as part of a joint venture to own, manage and acquire retail centers in Sao Paulo and Rio de Janeiro.

GGP Year-End Total Debt

Fixed Rate Debt	
Commercial Mortgage-Backed Securities	$332,526,000
Collateralized Mortgage Notes	$9,036,659,000
Unsecured Term Loans	$1,750,882,000
Variable Rate Debt	
Commercial Mortgage-Backed Securities	$361,239,000
Collateralized Mortgage Notes	$2,189,059,000
Credit Facilities	$150,000,000
Unsecured Term Loans	$6,490,582,000
Total Consolidated Debt	$20,310,947,000
Avg. Interest Rate	5.16%

GGP Principal Maturity Schedule:

2005	$2,038,929,000
2006	$2,084,985,000
2007	$3,929,614,000
2008	$4,521,833,000
2009	$3,436,967,000
Subsequent	$4,157,050,000
Total:	$20,169,378,000

2005 Company History

GGP Annual Performance - For the year, minimum rents increased $712 million over the previous year, 94% of which was due to acquisitions. Tenant recoveries and overage rents also increased primarily to acquisition activity the previous year. A new revenue line item for land sales related to the master-planned community assets in Nevada and Texas that were acquired with the Rouse Company purchase contributed $468.3 million.

For the entire year of 2004, land sales revenues were $105.8 million. Acquisitions for the year were not significant and were primarily obtaining interests in joint development ventures. The focus was on integrating the Rouse Company operations and executing strategies to increase productivity of those newly acquired properties. By year end, there were 22 redevelopment projects with a budget of at least $10 million underway. Six retail center developments were also under construction with scheduled openings for late 2006 or 2007.

<u>Equity Raising Events</u> - In December, the company concluded two separate transactions to dispose of a portion of the Rouse Company office portfolio that was acquired in 2004. A total of 37 buildings equaling 2.06 million square feet of space were disposed. The combined sale price for both transactions was $181 million.

<u>Debt Raising Events</u> - For the year, the company obtained approximately $3.9 billion of fixed rate debt through new financing and re-financings. A portion of these new financial agreements went to retire $2.7 billion of variable rate debt.

<u>Acquisitions Events</u> - The company spent $131.7 million to take a percentage ownership interest in four developments, three of which were under development. The largest transaction, for $85 million, was for a 50% ownership interest in an operating retail property on the island of Maui. A second international investment was also made for a 20% interest in a to-be developed retail center in Brazil.

Other Events - In August, the company announced a $200 million common stock repurchase plan through 2009. During 2005, a total of $99.6 million was spent to repurchase 2.2 million shares.

GGP Year-End Total Debt

Fixed Rate Debt	
Mortgage and other notes payable:	$14,789,000,000
Variable Debt	
2004 Credit Facility	
Six-month bridge loan	$0
Three-year term loan	$2,715,000,000
Four-year term loan	$1,980,000,000
Revolving credit facility	$180,000,000
Other variable debt	$755,000,000
Total Consolidated Debt	$20,419,000,000
Avg. Interest Rate	5.64%

GGP Principal Maturity Schedule:

2006	$1,870,317,000
2007	$2,378,676,000
2008	$3,779,819,000
2009	$5,072,581,000
2010	$3,543,137,000
Subsequent	$3,627,430,000
Total:	$20,271,960,000

2006 Company History

GGP Annual Performance - For the year, total revenue increased $184 million, 6% over the previous year. Minimum rents increased $83 million, up 5% from the previous year, due to higher specialty leasing and kiosk rents at existing retail centers. Land sale revenues increased $38 million, 10% higher from the prior year though demand at the Nevada, Texas, and Maryland projects sites showed signs of weakness in the housing market as builder customers cancelled anticipated sales. During the year, GGP completed 33 development projects totaling over $250 million. The focus on developing solely traditional shopping malls shifted to an increasing effort towards mixed-use style development with the inclusion of residential, hotel and office uses.

Debt Raising Events - For the year, principal payments on debt exceeded new financing by $17.2 million, with $9.383 billion in payments and $9.366 billion from the issuance of mortgage/property debt. GGP continued to focus on reducing the amount of variable rate debt as a percentage of total debt. As part of this strategy in February, the 2004 Credit Facility entered into for the purchase of the Rouse Company purchase was amended. The new agreement provided a $2.85 billion, four-year term loan, with a one-year extension option. The interest rate was to range from LIBOR plus 1.15% to LIBOR plus 1.5%, depending on certain company leverage ratios. This allowed the ratio of GGP's variable rate debt to total debt to be reduced from 31.9% in 2005 to 17% by the end of 2006. A $650 million revolving credit facility was also established in conjunction with this loan. Later in the year, $800 million of unsecured notes were sold, paying semi-annual interest payments of 6.75% with the principal due in 2013.

Acquisition/Development Events - For the year, the company funded $699 million for the acquisition and redevelopment of real estate and property improvements. A total of 17 redevelopment projects, each with a budget in excess of $10 million, and nine new retail centers were under construction.

Other Events - Under the previously announced stock repurchase plan, a total of $85.9 million was spent to repurchase 1.9 million common outstanding shares of the company.

GGP Year-End Total Debt

Fixed Rate Debt	
Commercial mortgage-backed securities	$868,765,000
Other collateralized mortgage notes	$13,761,988,000
Corporate and unsecured debt term loans	$2,386,727,000
Variable Debt	
Commercial mortgage-backed securities	$0
Other collateralized mortgage notes	$388,287,000
Credit facilities	$60,000
Corporate unsecured term loans	$3,056,200,000
Total Consolidated Debt	$20,521,967,000
Avg. Interest Rate	5.70%

GGP Principal Maturity Schedule:

2007	$1,300,937,000
2008	$2,037,804,000
2009	$3,230,677,000
2010	$3,746,780,000
2011	$6,535,402,000
Subsequent	$3,556,414,000

2007 Company History

GGP Annual Performance - For the year, total revenues increased $5.5 million, a 0.17% increase over the prior year. Minimum rents increased $180 million or 10.2% from the year before due to higher occupancy rates and effective rent rates. Revenues from land sales declined by $277 million as a result of the continued weakening of the residential real estate market. During 2007, a total of 39 development and redevelopment projects were completed, representing a total cost of more than $1.16 billion.

Acquisition/Development Events - For the year, GGP funded $1.5 billion for the real estate acquisitions and development. Three significant new development projects, each with a budget of at least a $100 million, and 13 new or redevelopment projects were under construction. In July, GGP acquired the outstanding 50% interest in a joint venture with the New York State Common Retirement Fund (NYSCRF) of ownership in 22 malls. The event was triggered by NYSCRF's decision to exercise its exchange right in accordance with the venture agreement. The purchase price included $1.2 billion in cash (including a deferred amount) and the assumption of $1.05 billion of existing debt.

<u>Debt Raising Events</u> - For the year, proceeds from the issuance of debt exceeded principal payments by $1.76 billion, with $4.45 billion of debt issuance and $2.69 billion in principal repayment. In April, the GGP sold $1.55 billion in 3.98% Exchangeable Senior Notes with semi-annual payments starting in October. The notes mature in 2027 unless GGP redeems the notes or exchanges them for common stock. The initial exchange rate was 11.27 shares for every $1,000 equaling a per share value of $88.72. The terms of the sale also stated that in 2012, 2017, and in 2022, the holders of the notes may require the company to repurchase the notes entirely for 100% of the principal amount and any unpaid interest. Proceeds of the transaction were used to repay $850 million of corporate unsecured debt as well as revolving credit facilities. This allowed the percentage variable debt to decline to 14% of the total debt. In July, a $750 million credit facility was obtained to partially fund the purchase of the NYSCRF outstanding ownership interest. The instrument was secured by several mall and office properties and was scheduled to mature in July 2008. The associated interest rate was LIBOR plus 1.25%

<u>Other Events</u> - Under the previously announced stock repurchase plan, a total of $95.6 million was spent to buy back 1.8 million shares. By the end of the year, the company had a total investment of $237.1 million related to international joint ventures in Brazil, Turkey and Costa Rica.

GGP Year-End Total Debt

Fixed Rate Debt	
Collateralized mortgage notes	$16,943,760,000
Corporate and unsecured debt term loans	$3,839,682,000
Variable Debt	
Commercial mortgage-backed securities	$0
Other collateralized mortgage notes	$819,607,000
Credit facilities	$429,150,000
Corporate unsecured term loans	$2,193,700,000
Total Consolidated Debt	$24,282,139,000
Avg. Interest Rate	5.55%

GGP Principal Maturity Schedule:

2008	$2,627,523,000
2009	$3,205,058,000
2010	$3,944,643,000
2011	$7,107,117,000
2012	$3,743,889,000
Subsequent	$3,586,493,000

2008 Company History

The company began the year on a positive note, with a stock offering in March to some of its largest shareholders at $36.00 per share. 22.8 million shares were sold with $821.9 million in net proceeds used primarily to pay down variable-rate debt and unsecured debt. In April, three office buildings in Las Vegas and Maryland were sold for a total of $98 million, resulting in a net gain of $30.8 million. However, in the second half of 2008, a succession of events occurred in rapid succession and created a domino effect that led GGP to declare bankruptcy in April of 2009.

As related in the previous annual financial summaries, GGP was able to source mortgage financing for billions of dollars each year. In 2006, $9.36 billion of debt was obtained for refinancing purposes, and in 2007, $4.45 billion was obtained to both refinance maturing debt and pay down variable rate debt. In 2008, a total of $4.2 billion was scheduled to mature. GGP had been relying heavily upon the CMBS market as a major source of this commercial mortgage financing and refinancing. Of the total company secured debt of $18.4 billion scheduled to mature through 2012, 68 loans representing $9.9 billion in principal were CMBS loans. Overall, the amount of CMBS debt issued peaked in 2007 at $230.2 billion. In the first six months of that year, total CMBS issuance was $137 billion, but during the same period in 2008, that figure was just over $12 billion, a decline of 91% related to the growing global credit crisis. In May, the managing director of Moody's predicted, "It may be several years before the CMBS market again sees conduit volumes in excess of $100 billion. In retrospect, perhaps U.S. CMBS should be viewed as a $50 billion to $100 billion per year business that spiked to $200 billion during a credit bubble rather than a $200 billion business having an off year."[9]

With the emerging credit global credit crunch causing the CMBS market to disappear as a prospective debt source, GGP had to rely more on operating cash flow to finance company activities. At the same time, the company undertook an extensive search to find alternative financing. Investment banks were hired to search for equity or debt sources around the world, but were unsuccessful. Major banks, life insurance companies and pension funds were also approached. GGP was successful in July sourcing a loan of $1.51 billion secured against 24 properties (The 2008 Credit Facility). The loan had a maturity date of July, 2011, and included a cross-default provision linked to the company's 2006 Credit Facility. In October, GGP received a short-term loan for $225 million, secured by 27 properties, with a maturity date in February, 2009. In December, eight separate loans totaling $896 million and collateralized by eight properties were

[9] CoStar Group, "CMBS: A $100 Billion/Year Business, Not $200 Billion," CoStar Group, http://www.costar.com/News/Article.aspx?id=C698960114BB0CE89639C9138617E8D4

refinanced with the current lender, representing the only successful refinancing effort by GGP during the year.

In the fall, the company announced several strategies to attempt to increase short-term liquidity. Shareholder dividend payments were suspended, the property redevelopment budget was dramatically reduced and employee layoffs began. GGP also shook up its senior management when it was revealed in November that during the period between November 2007 and September 2008, loans were made to the President and Chief Financial Officer by an affiliate of several Bucksbaum family trusts to assist the two company officers in re-paying personal margin debt related to their individual stock ownership. The loans were made without the knowledge or approval of the company's board of directors. Robert Michaels was stripped of his President title, Bernard Freibaum was fired from his CFO position, and CEO John Bucksbaum was replaced by a new interim, CEO, though he retained his role as Chairman of the Board.

At the end of November, two Las Vegas mall property mortgage loans totaling $900 million were scheduled to mature. The company marketed the properties for sale to raise capital, and received several offers, which they rejected as too low. According to Real Capital Analytics (RCA), the average price on mall transactions declined 35% between February 2006 and February 2009. GGP was unable to pay or refinance the loans and, in December, entered into a forbearance agreement with the lenders' syndicate. The agreement extended the loans' maturity date to February 2009. The potential default of the Las Vegas mortgages linked them to the 2006 Credit Facility, since that agreement included a cross-default provision triggered if the Las Vegas property mortgages were not refinanced or repaid. By the end of the year, the outstanding balance on this credit facility was $1.99 billion for the term loan portion, and $590 million for the revolving line of credit. In addition, the recently sourced 2008 Credit Facility included a cross-default provision with the 2006 Facility, and by the end of the year, it had an outstanding balance of $1.51 billion.

2009 Company History

At the start of 2009, General Growth attempted to negotiate short-term extensions on maturing debt, while engaging a second bankruptcy counsel in addition to the first counsel hired in fall 2008. In the company's bankruptcy filing statement it was revealed that, starting in January, an intensive effort was begun to obtain debtor-in-possession (DIP) financing during which approximately 30 financial institutions and lenders were contacted and solicited for proposals. Negotiations with several potential lenders extended into mid-April, just prior to the bankruptcy filing.

The company also attempted to negotiate with the loan servicers of its CMBS debt. However in a CMBS structure, as compared with a traditional commercial mortgage, the debt is not held by a single lender or group of lenders. The mortgage is transferred to a real estate mortgage investment conduit (REMIC), which then sells certificates or bonds that entitle the holders to interest and principal payments from the underlying mortgage. Under a pooling and services agreement, the REMIC's management by both master servicer and special servicer entity is defined. The REMIC's administrative loan functions are conducted by a master servicer entity, who typically does not have the authority to alter loan terms. The special servicer entity does have the authority to modify loan terms, but only after responsibility to manage the mortgage is transferred from the master servicer to the special servicer. This transfer can occur only within a narrow set of circumstances, such as failure of the borrower to make a loan payment, or a declaration of bankruptcy by the borrower. General Growth declared in their bankruptcy filing statement that this loan structure caused the company "to face steep logistical challenges in even getting the loan servicers to begin negotiations" and that "in all instances, these constraints prevented GGP from obtaining meaningful, permanent extensions of its CMBS debt." [10]

What caused the largest real estate bankruptcy in U.S. history? In his declaration to the bankruptcy court, Adam Metz, General Growth's new interim CEO, stated that "GGP did not commence these chapter 11 cases because its operational model is flawed or because its properties are undesirable or performing poorly. Rather, it was the unprecedented disruption in the real estate finance markets specifically, as well as the credit crisis generally, coinciding with GGP's need to refinance or extend the maturity of billions of dollars in mortgage loans over the next several years and to reduce the overall amount of its debt, that led the company's management and directors to conclude reluctantly that a chapter 11 filing was necessary." [11]

Between 2000 and 2008, the company had grown dramatically in scale. The number of malls in which the company had an ownership interest went from 95 to 204. Company revenues grew from approximately $699 million to $3.3 billion. Total balance sheet assets increased from $5.3 billion to $29.5 billion. General Growth's company performance, viewed by its operational results and efficiency over this nine year period, shows a strong company when compared to its peer, the Simon Property Group.

[10] James Mesterharm, "Declaration of James A. Mesterharm" United States Bankruptcy Court Southern District of New York, April 16, 2009
[11] Adam Metz, "Declaration of Adam Metz" United States Bankruptcy Court Southern District of New York, April 16, 2009

Category	GGP Year 2000	GGP 2008	Simon Group 2000	Simon Group 2008
Total Revenue	$698MM	$3.36B	$2.02B	$3.78B
Occupancy Rate	91%	92.5%	91.8%	92.4%
Sales p/sf	$357	$438	$384	$470
Mortgage Debt	$3.2B	$24.8B	$8.7B	$18B
Annual Interest Expense	$218MM	$1.299B	$636MM	$1.56B
Revenue/Expense Ratio	$3.09	$2.45	$1.80	$1.70
Mortgage Debt/Asset Ratio	61.4%	84.1%	62.6%	77%
Revenue/Interest Expense Ratio	3.2	2.59	3.18	2.43

General Growth's overall portfolio occupancy rate between 2000 and 2008 never dropped below 91%. The sales per square foot measurement increased dramatically in 2004 with the acquisition of The Rouse Company, which included higher producing properties than the General Growth portfolio at the time. While the total revenue to total expenses ratio for the company declined over the nine year period, it was 44% higher in 2008 when compared to The Simon Group's performance.

However, in looking more closely at the company's performance numbers, other trends appear. Revenue growth through 2005 was driven primarily by new acquisitions during the company's buying spree. Revenue growth from 2006-2008 ranged from 0.17%-6%, which included one year of substantial gain from land sales in Nevada. The revenue increases that the company announced predicted when acquiring the Rouse Company in 2004 did not materialize. To fund its acquisitions, General Growth increased its overall company debt from $4.5 billion in 2000 to $28 billion dollars by the end of 2008. This surge of borrowing increased the company's annual interest expense, and drove up its debt ratio significantly to 84%.

Primarily using CMBS sourced debt, General Growth was the single largest CMBS borrower in the market. Each year, the company was able to source financing which included declining interest rates and a trend towards interest-only payments. The financing terms shifted through the decade, from ten year terms in 2002 to four and five year terms in 2007. Each year, the amount of maturing principal debt increased, and the company was entirely dependent on the debt market to provide refinancing. In summary, the company used cheap debt to fuel an acquisitions binge, which increased the year-over-year revenue of the company. Afterwards, the company was able to service this increased debt load due to the easy credit terms of interest only payments with low interest rates. Each year, GGP was able to refinance the maturing debt, while never paying down principal. Up until the credit crisis in 2008, this strategy was successfully executed, similar to an individual transferring debt between credit cards as favorable credit terms expired. After GGP's bankruptcy filing, The Simon Group's CFO commented that "their bankruptcy is not reflective of adverse conditions in the retail real estate market. This is strictly a situation related to how they financed the company."[12]

On April 16, 2009, General Growth Properties filed for Chapter 11 bankruptcy protection. This event was not unexpected, as GGP had been unable to negotiate further forbearance agreements with the various lenders and corporate bond holders that held maturing company debt. However, a completely unexpected occurrence that sent shockwaves through the debt securitization market, was GGP's inclusion of 166 of its shopping center subsidiaries. The company had designed these subsidiaries as special

[12] Elaine Misonzhnik, "Industry Questions Whether GGP Can Avoid Asset Sales," *Retail Traffic,* April 29, 2009.

purpose entities ("SPE"s) for the sole purpose of borrowing money, mainly through the CMBS market. The SPEs were required by lenders because they were considered "bankruptcy remote" from the parent company, according to conventional legal thought at the time. The parent company's bankruptcy was not to affect the SPE, since the debt payments paid by the SPE were dedicated only to paying the underlying mortgage debt of the property. In addition, each SPE had a Board of Directors who were designated to protect the creditor's interests.

In General Growth's bankruptcy filing documents, the company announced that each of the 166 SPEs' Boards of Directors had voted to approve the inclusion of each SPE into the Chapter 11 proceedings. It later became public that in the weeks leading up to the bankruptcy filing, the company had replaced the Directors on almost 90% of the SPE Boards. This brought into question the independence of the SPE Directors, and the ability of GGP to replace them. Further legal analysis at the time related that these SPE entities, formed in Delaware, had bylaws that allowed the borrower to replace the Directors, or did not prohibit such action.

A second shock to the securitization market was the request by General Growth to maintain their centralized cash management system during the bankruptcy period. Pre-bankruptcy, this system was utilized since individual subsidiaries and properties did not have check writing capabilities. Rather, the parent company tracked all cash movements between entities, and made the debt service and other expense payments related to individual properties. With GGP's request, the individual creditors were faced with a scenario by which the SPE's parent company had the ability to draw money out of the individual properties to potentially pay for unrelated mortgage debt or parent company expenses. In its bankruptcy filing statements, GGP tried to alleviate creditors concerns by pledging to pay all the interest on the company's outstanding mortgages.

Subsequent to the bankruptcy filing, several of General Growth's creditors filed motions contesting the proposals by the company. Five separate motions were filed to dismiss the inclusion on certain SPE entities in the overall bankruptcy filing. The SPE loan servicers argued that their individual properties were viable entities maintaining monthly debt payments, with the mortgage loans not scheduled to mature for some time. In summary, it was impossible to consider these entities to be bankrupt. In the original filing statements, General Growth argued that since there appeared to be minimal chance of refinancing the individual properties' debt, they were indeed eligible for inclusion in the bankruptcy filing. Adam Metz, the interim CEO, stated in his bankruptcy declaration that "GGP has sought bankruptcy court assistance to restructure its finances and de-leverage its balance sheet because the collapse of the credit markets have made it impossible for the company to refinance its maturing debt outside of chapter 11."[13] The company also wanted to declare the bankruptcies in order to work within the CMBS structure. "The Company believes the chapter 11 process will provide a forum for more productive negotiations with servicers of CMBS loans towards the Company's objective of achieving a sustainable, long-term restructuring of its capital structure."[14]

In early May, the bankruptcy judge ruled in favor of General Growth allowing the company to include the SPEs in the bankruptcy filing. He also accepted General Growth's proposed cash management system. To the relief of the securitization industry

[13] Adam Metz, "Declaration of Adam Metz" United States Bankruptcy Court Southern District of New York, April 16, 2009
[14] James Mesterharm, "Declaration of James A. Mesterharm" United States Bankruptcy Court Southern District of New York, April 16, 2009

the judge did not consolidate the company's outstanding debts, which allowed the SPE structure of separate property debt to continue to exist. In August, the judge reaffirmed his rule by dismissing another motion to remove certain SPEs from inclusion in the bankruptcy filing. Judge Gropper stated that in the Second Circuit Court, a bankruptcy dismissal is generally ordered only when 1) the debtor does not intend to reorganize and exit bankruptcy or 2) there is a bad-faith filing by the debtor. The judge stated that there was no evidence of bad faith since GGP had attempted to negotiate forbearance and debt extension agreements with its creditors. In addition, well-established case law does not require that a debtor be insolvent when a bankruptcy case is filed. The collapse of the CMBS market combined with testimony by lender representatives on the futility of refinancing supported GGP's bankruptcy strategy related to the SPEs. The judge also ruled that each SPE lender was aware that their individual loans were for the benefit of the entire company and that meaningful debt restructuring could only be accomplished by providing refinancing options for any maturing debt.[15]

These series of events and judicial rulings has created uncertainty in the CMBS market. The cash flow from the individual properties was not considered in isolation, but was subject to collection and distribution by the SPEs' parent company. The bankruptcy-remoteness structure of the SPE was called into question and the independence of the SPEs' Directors was also now a cause for concern.

> "The ruling against the creditors or the increased chance of commercial properties being taken into bankruptcy by parent companies could have a lasting effect on CMBS. While the ruling may not be as disastrous as some predicted, it adds a level of uncertainty to the market that will change things. 'As an investor that wants to restart the CMBS market, I have to consider these uncertainties,' said Tom Zatko, managing director

[15] O'Melveny & Meyers LLP Newsroom, "General Growth Properties, Inc. Decision Notes Weaknesses of Securitization Special Purposes Entities," O'Melveny & Meyers LLP, http://www.omm.com/general-growth-properties-inc-decision-notes-weaknesses-of-securitization-special-purpose-entities-08-13-2009/

> with Babson Capital Management and head of its real estate finance group's CMBS business. 'All of these rulings will be looked at very carefully when investors are looking to craft terms that will protect them in the future. We will see tougher documents… If you think documents leave room for interpretation, that uncertainty will have to be priced in.'"[16]

After the April bankruptcy filing, GGP began an intensive effort to negotiate loan modification agreements with its secured lenders. During this period, GGP's counsel, Kirkland & Ellis, had 50 different lawyers working on the negotiations while Venable, LLP, representing the special servicers, had 14 lawyers engaged full-time. Beginning in December, the company made a series of announcements on a reorganization plan in which approximately $10.65 billion in secured mortgage loans related to 85 properties were restructured, allowing those SPEs to exit bankruptcy proceedings. The revised debt terms included new maturity date extensions averaging 6.4 years, with no loan due earlier than January, 2014. In exchange, lenders were scheduled to have principal paid earlier in the loan.

At the same time as these loan negotiations were taking place, potential buyers of General Growth began to position themselves. In December, *The Wall Street Journal* reported that Brookfield Asset Management had purchased close to $1 billion of GGP's unsecured debt, which totaled over $7 billion. The story also stated that Simon Property Group (SPG), the largest retail REIT in the nation, was also in discussions with unsecured lenders to purchase GGP's debt obligations. Both Brookfield and SPG had the same strategic approach to convert their debt position into an equity position to gain control of the company. This would mark the second time that the two companies would compete for an interest in a retail REIT. In 2007, after Brookfield had come to terms

[16] Matthew Sheahan, "General Growth Ruling Could Hurt CMBS," *Leveraged Finance News*, May 14, 2009

with The Mills Corporation to purchase its 37 regional retail centers, SPG came forward with a higher offer that was eventually accepted by the Mills Corporation's Board of Directors.

On February 16, 2010, SPG announced that they had made a $10 billion offer to outright purchase General Growth, including $9 billion in cash. The proposal included 100% cash recovery of par value plus accrued interest and dividends by all of the company's unsecured creditors, for a total of approximately $7 billion. Current General Growth shareholders were offered $9 per share, which SPG calculated as a combination of $6 per share in cash plus all the ownership interest in the master planned community division, valued at $3 per share. SPG made their offer public in reaction to their belief that General Growth was not giving the offer a full consideration. If accepted, the acquisition would have given SPG ownership in over 30% of retail malls in the entire country.

In actuality, the company was negotiating another equity investment. On February 24, General Growth announced an agreement in principal with Brookfield Asset Management as part of an overall company strategy and recapitalization. The proposal began with the creation of new company called General Growth Opportunities (GGO) that would own certain non-core assets, such as the master planned communities in Nevada and Texas, plus other developments. These assets are currently producing minimal income, but are expected to have significant long-term value. Brookfield Asset Management offer was $2.625 billion, or $15 per share. The offer was calculated as $2.5 billion at $10 per share for the GGP common stock, and $5 per share, up to $125 million, for the GGO stock. Brookfield would then own a 30% stake in the company and have the right to nominate three Directors to the Board. In consideration for their offer, the

Brookfield proposal included warrants good for seven years to purchase 60 million shares of GGP common stock at an exercise price of $15 as compensation for its financial commitment. This plan also included the expectation that an additional $5.8 billion in capital would be raised through the issuance of new stock, debt and asset sales. The goal was to offer the firm's unsecured creditors 100% cash recovery including accrued interest.

On March 8, General Growth announced a proposal from Fairholme Capital Management and Pershing Square Capital Management. Fairholme is one of General Growth's largest unsecured creditors, while Pershing Square is one of the company's largest shareholders, and a significant unsecured creditor. Pershing accumulated approximately 25% of General Growth's shares by the end of 2008, as the stock was trading below $2 per share. They also provided approximately $375 million in debtor-in-possession financing to General Growth as part of the bankruptcy filing. The two groups offered a total commitment of $3.925 billion dollars with the same stock valuation as the recently announced Brookfield offer. They would also receive warrants to purchase an additional 60 million shares of General Growth at $15 a share. Together, the two offers equaled a total equity contribution of $6.55 billion. GGP announced on March 31 that it had submitted these combined equity offers plus the plan for another $1.5 billion in new debt issuance to the bankruptcy judge as the company's plan to emerge from the bankruptcy.

On April 14, The Simon Group revised their equity investment proposal and offered to match the terms of Brookfield Asset Management proposal to buy GGP shares at $10 per share, but without the stock warrants. SPG also stated that it would match the equity offers of both Fairholme Capital and Pershing Square if they would not drop their stock warrant requirements. Finally, it offered to cap its voting rights in the company at 20% plus the right to name just two Directors to the Board. These two proposals seemed designed to address potential anti-trust issues that might arise from the largest retail REIT owning a significant percentage of the second largest retail REIT. On April 21, Brookfield announced that it would not alter its offer terms. On April 22, SPG further adjusted its offer, adding a $1.5 billion credit facility to its $2.5 billion stock purchase offer in response to General Growth's March 8 bankruptcy exit proposal, which included a plan to raise $1.5 billion in new debt for the company.

On April 29th General Growth was scheduled to declare to the bankruptcy court its preferred recapitalization plan for emerging from bankruptcy. This portion of the hearing was postponed until May 5th, as the company continued discussions regarding the two pending offers. General Growth did announce that it had reached an agreement to restructure the two Las Vegas mortgage loans whose maturity in 2008 was the cause of a cascade of other debt maturities. This restructuring represented the final two major secured mortgage loans to be modified by the company, which has now negotiated new terms on approximately $14.8 billion of debt. The average interest rate of these loans is now 5.26%, and the average duration is 6.5 years from January 1, 2010.

The rise and fall of General Growth is intertwined with the rise and fall of the CMBS market, as well as the global credit bubble. Throughout the decade, General Growth was able to access cheap and plentiful debt to fund its acquisitions binge and each year afterward, refinance its every growing amount of maturing debt. CMBS offered a very attractive source of financing in terms of interest rates and payment terms. The combination of low interest rates and interest-only repayment until maturity allowed

General Growth to manage an overall debt load that increased from $4.5 billion in 2000 to over $28 billion by the end of 2008. The company's debt increased dramatically in part as it went out and purchased retail mall assets at top dollar pricing, reflecting lower and lower capitalization rates on those assets. A mix of low interest rate guidance from the Federal Reserve via the Fed Funds Rate and low yield returns on traditional investments such as U.S. bonds caused yield return requirements for other asset investments to decline accordingly. Combined with access the attractive debt financing, General Growth was able to maintain positive leverage position while outbidding its competitors to acquire new properties. The company's overall debt and increasing use of CMBS correlated to the overall growth of CMBS issuance, which increased from $46.9 billion in 2000 to a record $230.2 billion in 2007.

The bursting of the credit bubble in 2008 directly caused the subsequent bankruptcy filing by General Growth in spring 2009. Interim CEO Adam Metz was correct in his statement to the bankruptcy court that the operational model of the company was not at issue. It is unprecedented for a company going through a bankruptcy process to have not one, but two, potential suitors offering to make an equity investment at fairly aggressive stock valuation levels that would provide a full recovery to creditors, as well as some return to existing shareholders. This situation reflects the attractiveness of General Growth's retail properties and their revenue performance, and a once in a lifetime chance to gain control of those assets. A reconfigured balance sheet that includes no unsecured debt, mortgage debt with low interest rates, and extended maturity dates is also highly attractive. In fact, investors are looking for other opportunities with over-leveraged REITs that might be able to replicate the General Growth strategy in dealing with CMBS-related debt. An April 28th Wall Street Journal article related that, "The General Growth story has inspired buying among the stocks of other troubled real estate firms, including companies whose prospects seem less certain than General Growth's. 'Investors are going further out into the risk spectrum. They're saying, 'OK, General Growth, that story has been told. Let's look at other highly leveraged companies' said Jeung Hyun, a portfolio manager at Adelante Capital Management."[17]

The evaporation of the CMBS market in 2008 led to General Growth declaring bankruptcy in April 2009. For the year 2008 overall CMBS issuance was only $12.1 billion. This plunge in available financing came at the same time as General Growth needed to refinance its annual maturing debt. Since the company did not have enough cash-on-hand to retire the debt, and could not liquidate any of its property holdings at an attractive sales price, it was not left with many options. The forbearance agreements it was able to enter into with some lenders gave the company some additional time to try and find a financing solution but none were available. Since General Growth had financially engineered the company to be entirely dependent on access to large amounts of readily available debt, a bankruptcy filing was its only option.

Now, the General Growth's bankruptcy threatens to remake the CMBS market. In the company's bankruptcy proceedings it has established new precedents which alter the way in which CMBS investors thought the instrument was designed. The belief in the bankruptcy remoteness of the SPEs used for this type of financing was compromised when GGP included the 166 SPE subsidiaries in their corporate bankruptcy filing, even as most included performing loans that were not scheduled to mature for at least another

[17] A.D. Pruitt, "REITs Hitch a Ride on General Growth Story," *The Wall Street Journal*, April 28, 2010 The Property Report

year. Judge Gropper rejected the motions of creditors to dismiss the bankruptcy filing of certain SPE with those exact characteristics, establishing a damaging precedent in the CMBS market. The judge has also ruled during this process that the cash flow coming from an SPE can be collected by a parent company and potentially used to service debt obligations beyond the property level mortgage, which is another complication that was not envision by CMBS investors. Creditors have learned from the General Growth experience that the CMBS financing instrument may not serve them the way they thought it might. It will be interesting to see how the ramifications of the General Growth experience will negatively alter the CMBS market for debtors and creditors, perhaps permanently.

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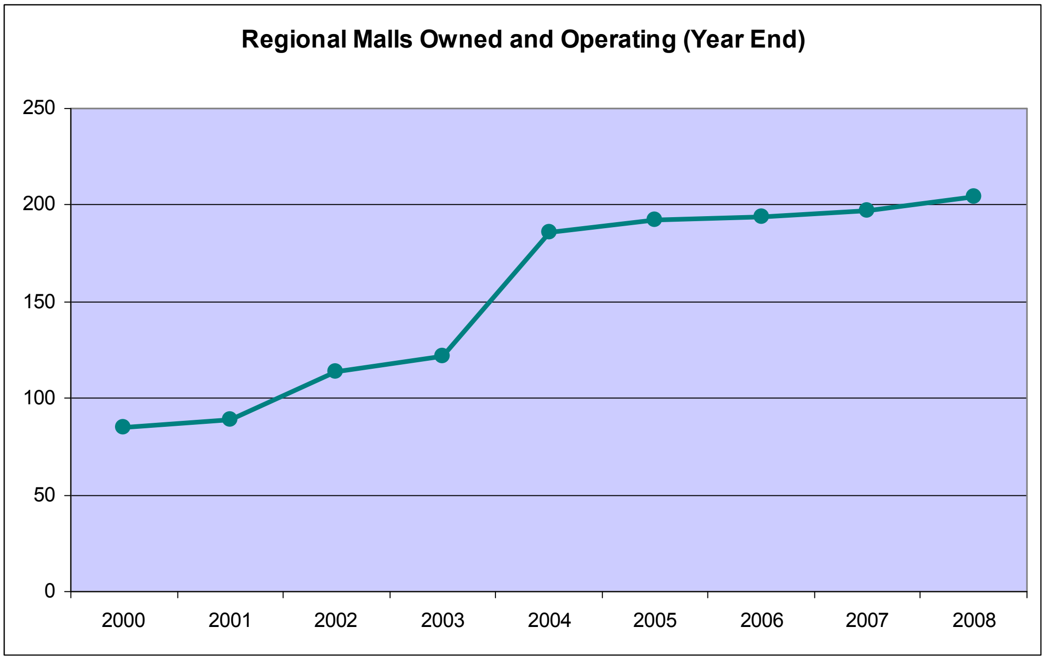
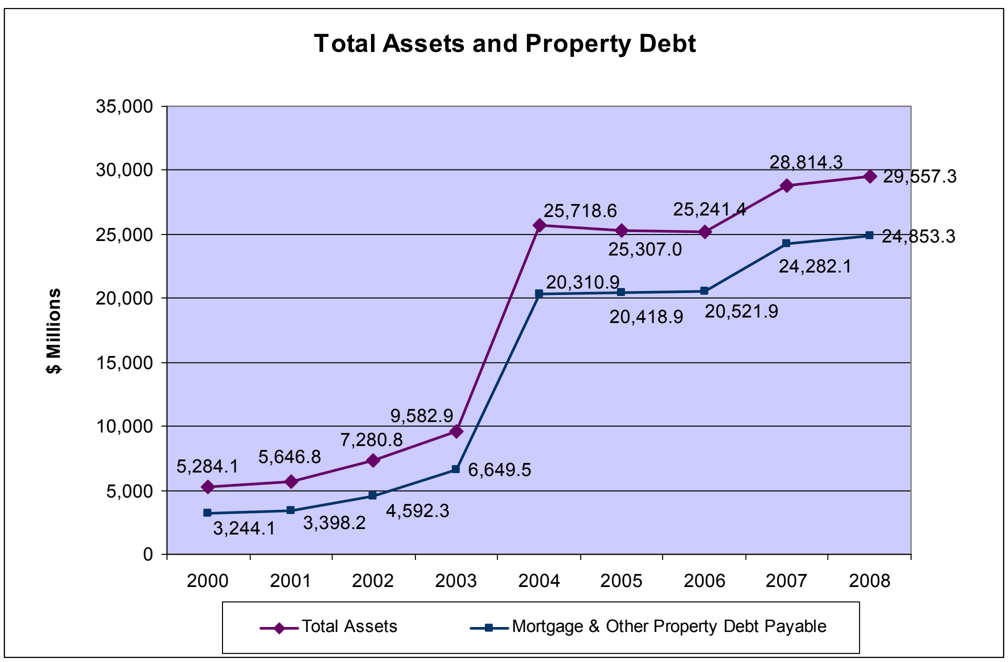


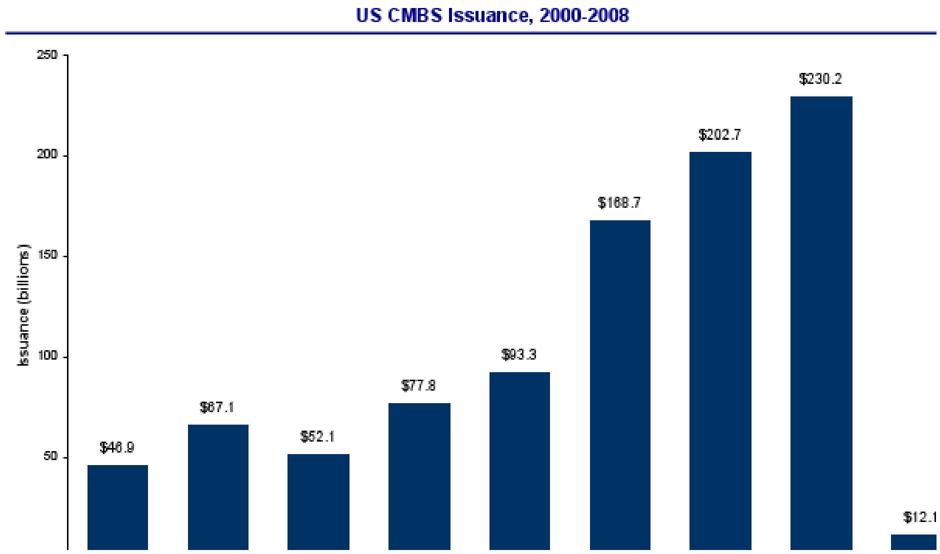


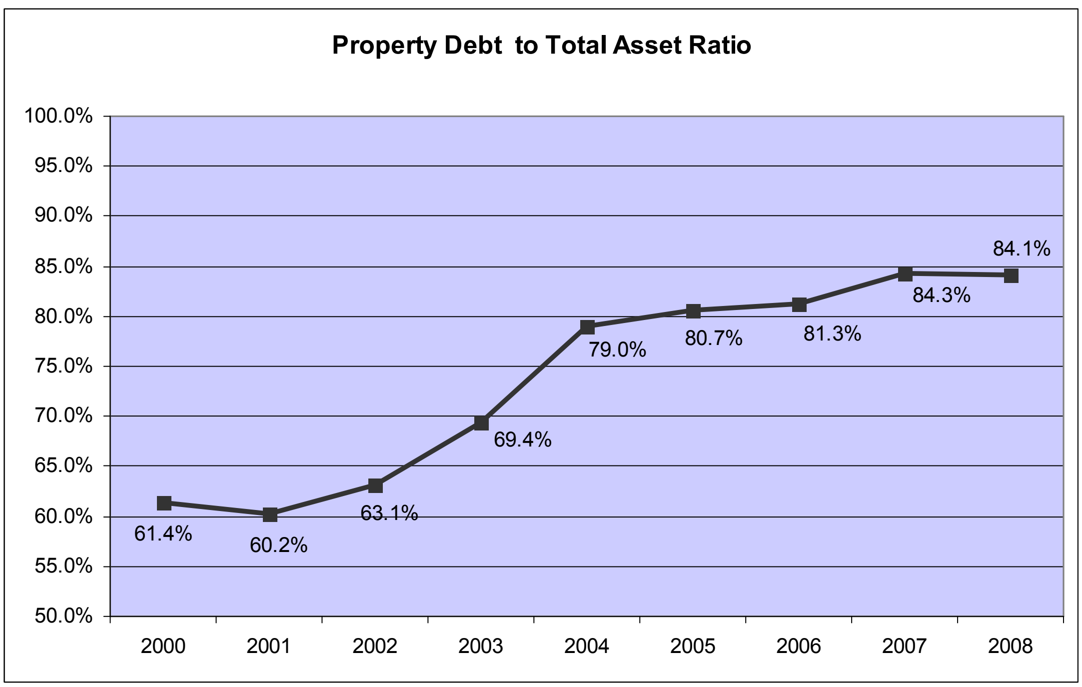
Goldman Sachs

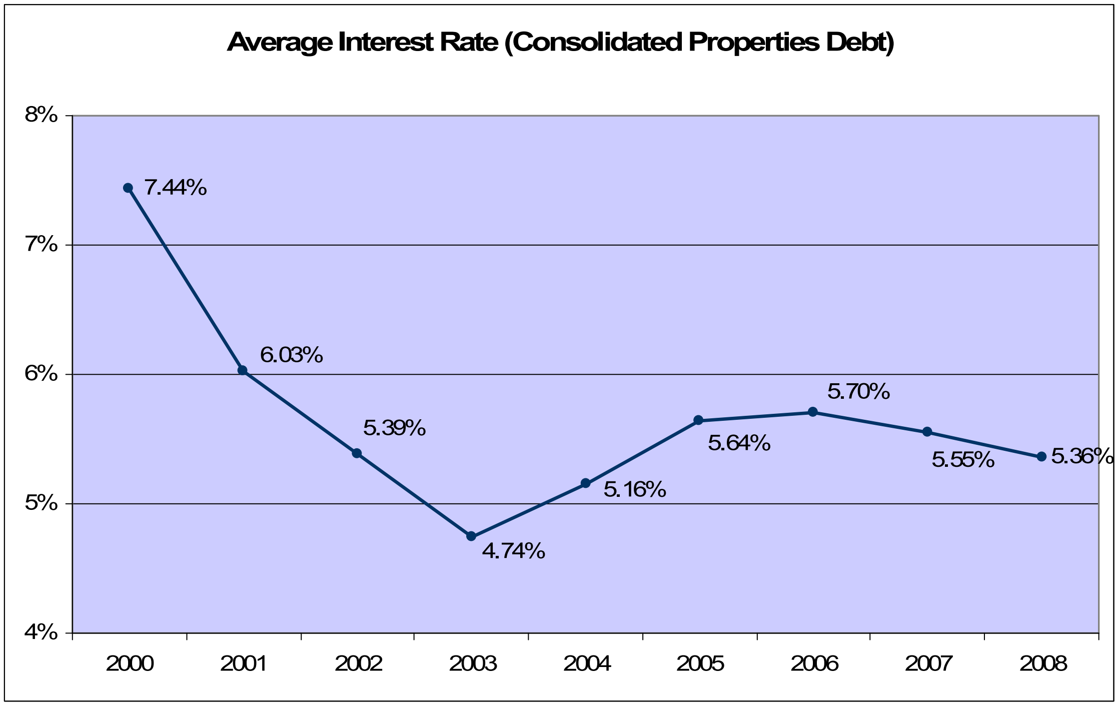
Historical CMBS Issuance

2008 Issuance Declined 95%

($ in billions)



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6%
5%
4%
7.44%
6.03%
5.39%
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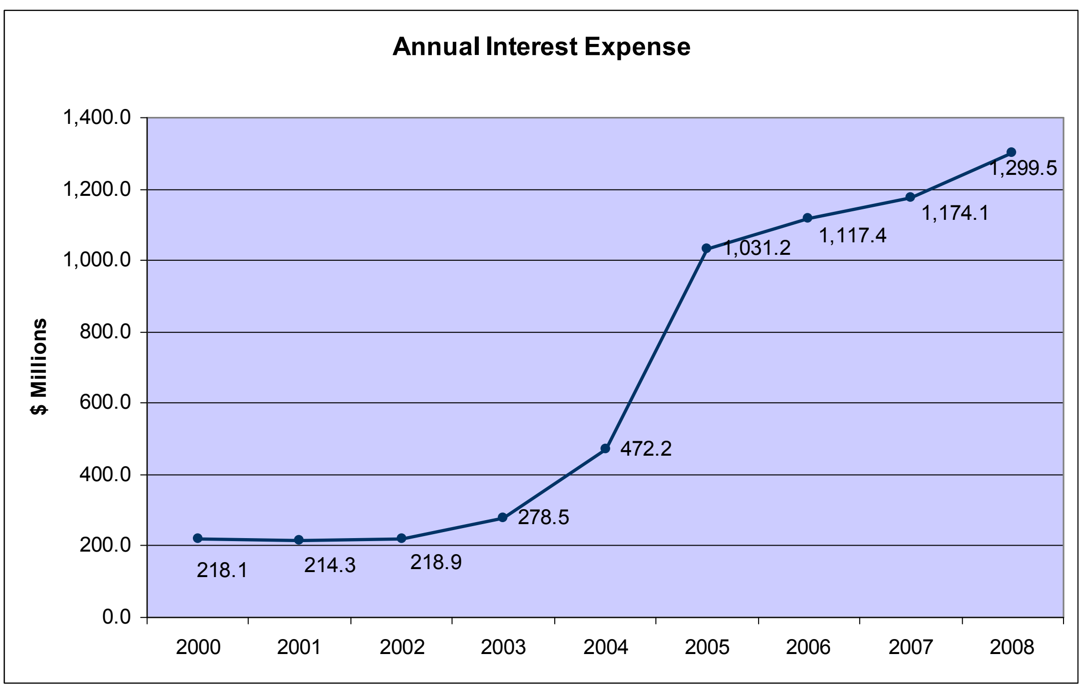
5.64%
5.70%
5.55%
5.36%
2000
2001
2002
2003
2004
2005
2006
2007
2008


Annual Interest Expense
$ Millions
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1,200.0
1,000.0
800.0
600.0
400.0
200.0
0.0
218.1
214.3
218.9
278.5
472.2
1,031.2
1,117.4
1,174.1
1,299.5
2000
2001
2002
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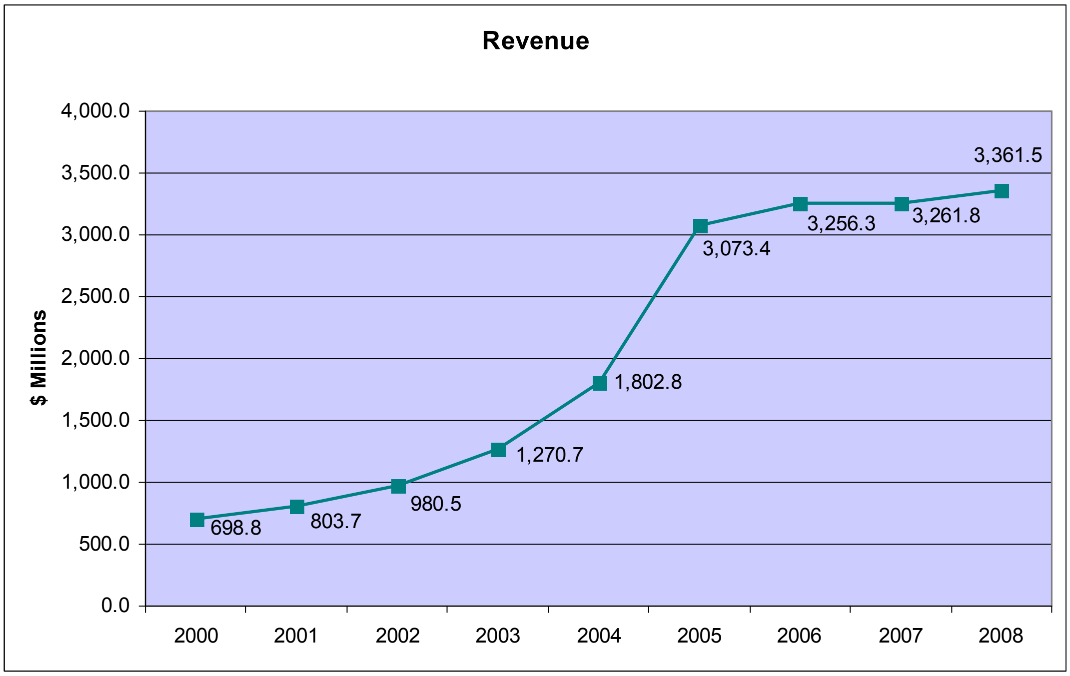
2004
2005
2006
2007
2008


Revenue
$ Millions
4,000.0
3,500.0
3,000.0
2,500.0
2,000.0
1,500.0
1,000.0
500.0
0.0
698.8
803.7
980.5
1,270.7
1,802.8
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3,256.3
3,261.8
3,361.5
2000
2001
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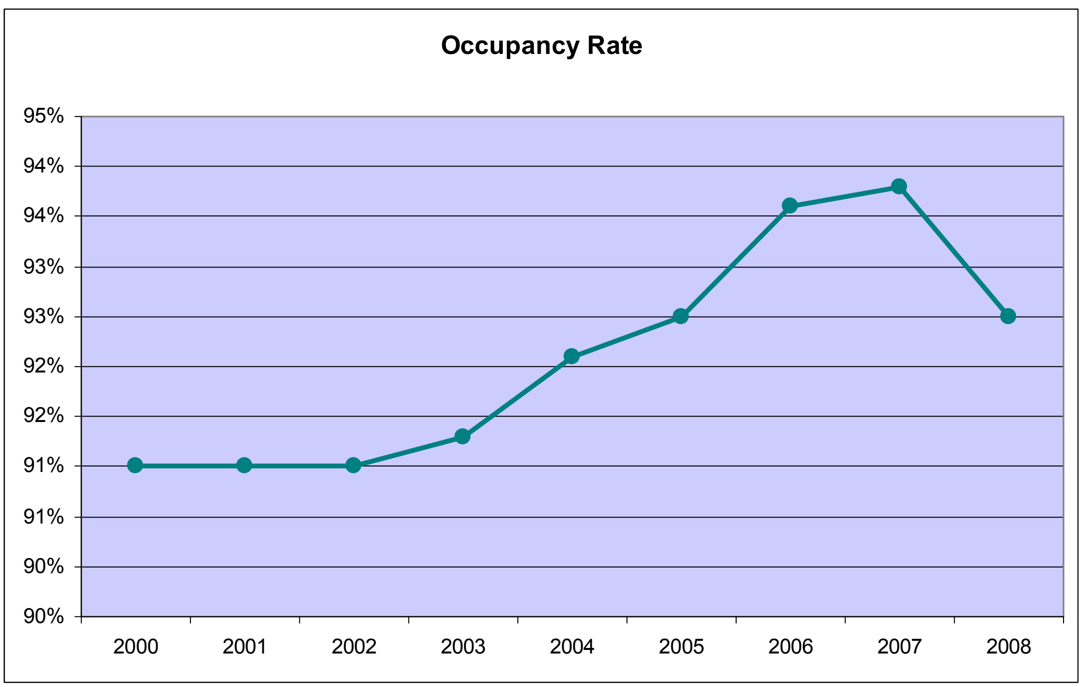
2004
2005
2006
2007
2008


Occupancy Rate
95%
94%
94%
93%
93%
92%
92%
91%
91%
90%
90%
2000
2001
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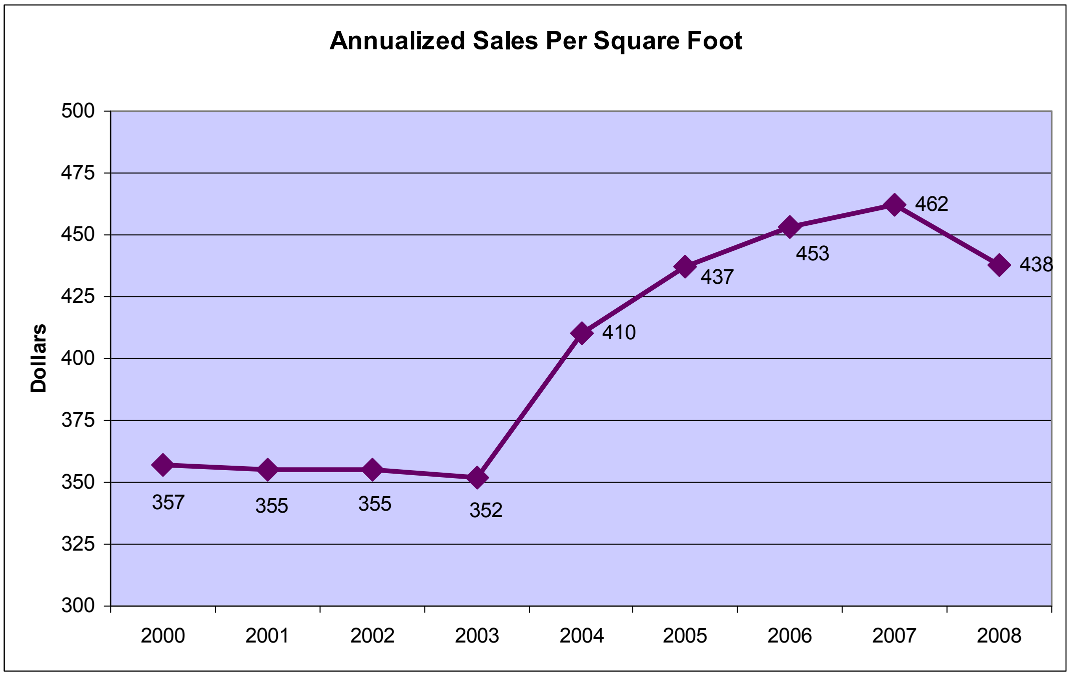
2004
2005
2006
2007
2008


Annualized Sales Per Square Foot
Dollars
500
475
450
425
400
375
350
325
300
2000
2001
2002
2003
2004
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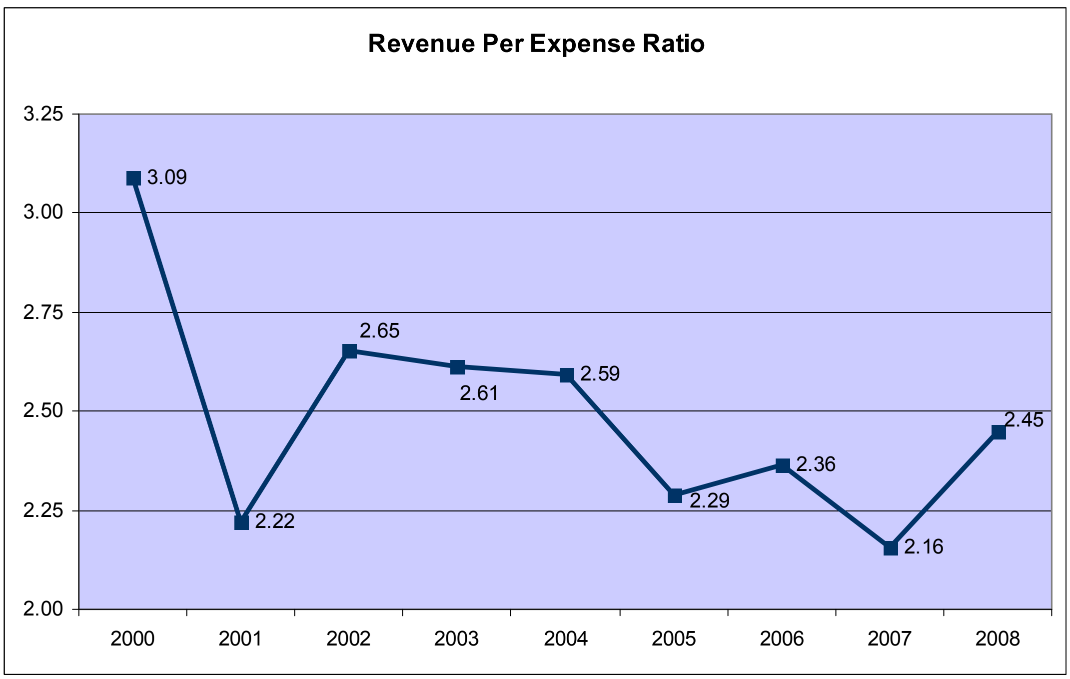
2006
2007
2008
357
355
355
352
410
437
453
462
438


Revenue Per Expense Ratio
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3.00
2.75
2.50
2.25
2.00
2000
2001
2002
2003
2004
2005
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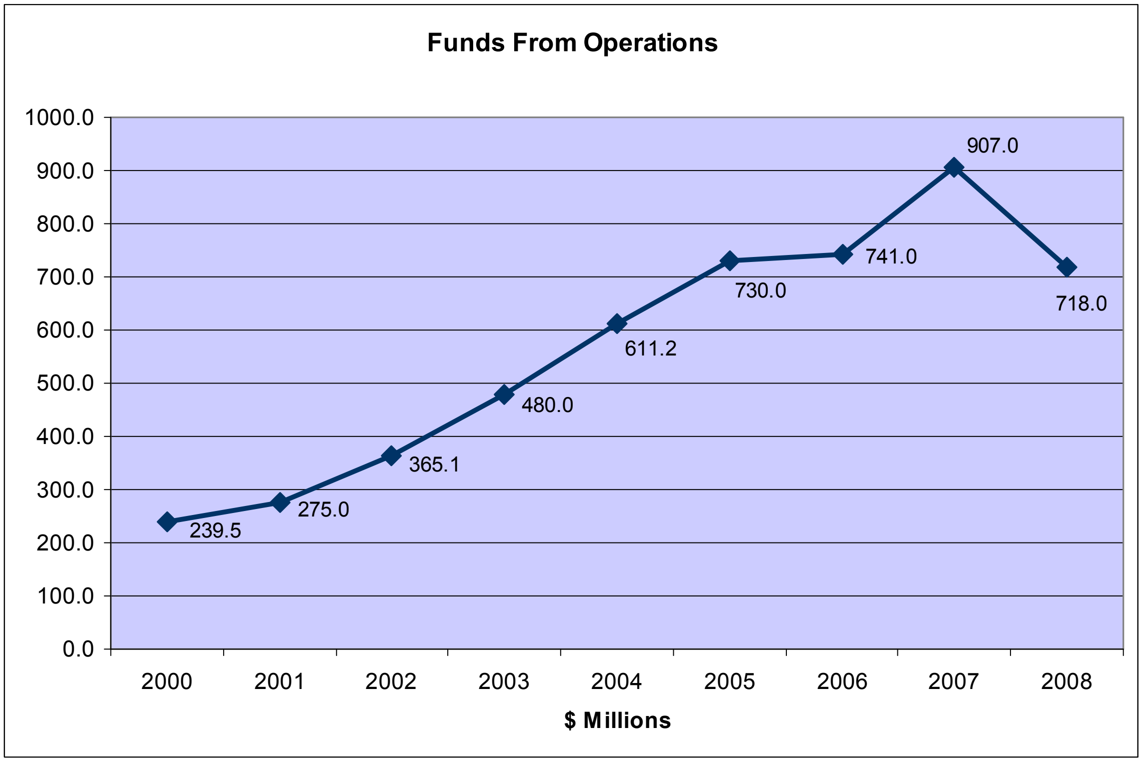
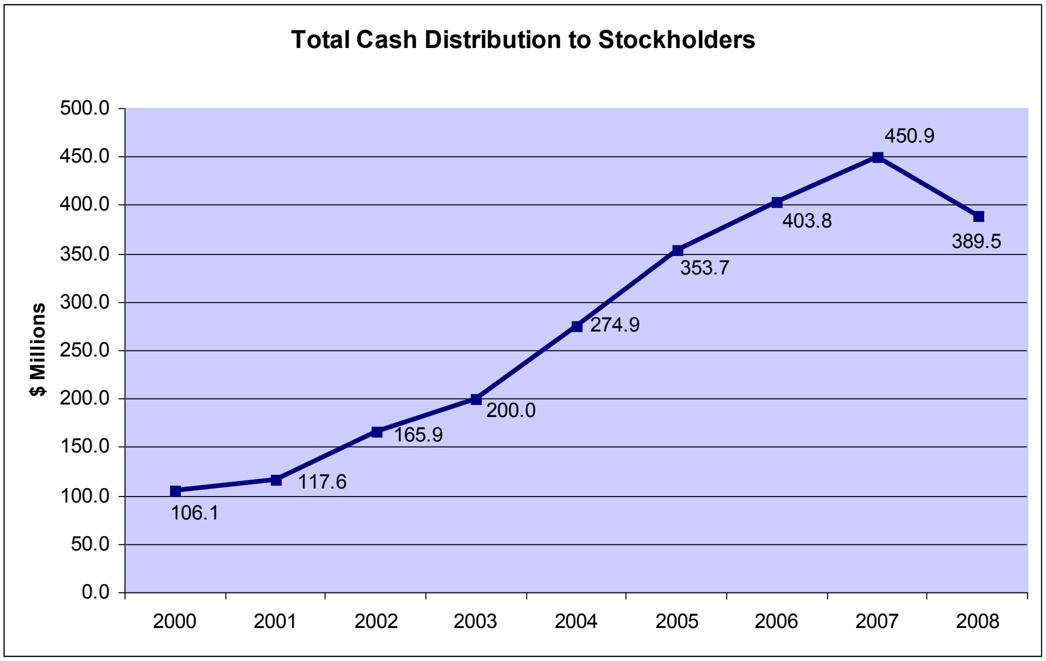
2.29
2.36
2.16
2.45


Funds From Operations
1000.0
900.0
800.0
700.0
600.0
500.0
400.0
300.0
200.0
100.0
0.0
239.5
275.0
365.1
480.0
611.2
730.0
741.0
907.0
718.0
2000
2001
2002
2003
2004
2005
2006
2007
2008
$ Millions

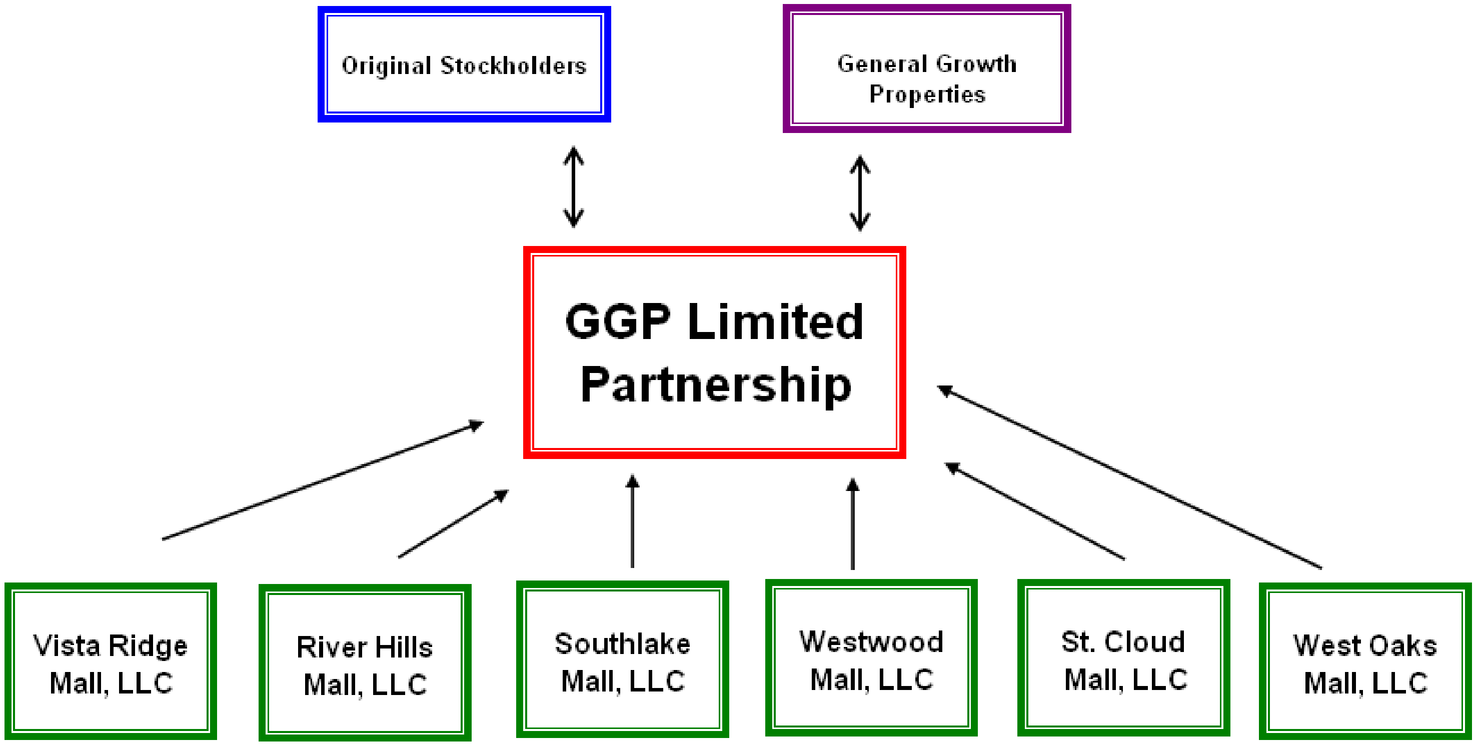
General Growth Properties Shareholder Information



Stock performance 2000-2010

(compared to peer group and REIT index)

General Growth Company Structure



CMBS STRUCTURE

(w/ GGP Bankruptcy Precedent)